The MORTGAGE BANKER

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What Will Higher Taxes Do to the Value of Houses Costing $12,000 and More

This lender thinks conditions of today make the more expensive house a bigger problem now than it has been in the past

CAN values of homes in excess of $12,000 be preserved in view of increasing taxes of all types? Further, isn't the increasing number of small homes having an adverse effect on the value of higher priced homes?

This is a broad general question and a further breakdown is necessary to discuss the matter at all. The effects of the 1929-1933 collapse were so profound on both exterior and interior style and equipment that houses now on the market divide rather readily into two classes: (a) Modern—Those houses built since the depression; and (b) Obsolete—Those houses built before the depression.

The modern house in the $12,000 to $25,000 range will tend to be in an area where the social desirability is still excellent, and will cover the requirements of 90 per cent of the families in the higher income brackets. It will provide the home of six rooms and one bath on through to the home with four bedrooms and two baths for the family with servants' quarters over the garage.

This group of modern houses may be able to absorb the shock of increasing federal taxation—and if it can, it will certainly be the only classification of homes above $12,000 that will. I am inclined to believe that about as many people will be forced down into the higher parts of this $12,000 to $25,000 bracket from the higher than $25,000 group as will be forced into the under $12,000 group through the increases in federal taxation.

THE author of this article is an officer in a large lending institution and what he has to say here represents to us a rather important contribution to the thinking about one of the really prime problems in mortgage banking. His views are given along with those of several of his associates. It must be remembered that this was written before the outbreak of war, but even as this issue goes to press, the trend of the future is not clear enough to warrant any particular changes in the views set forth—although that doesn't mean that they might not be subject to change in the months ahead.

The individual facing an increase of several thousand dollars in income tax is more apt to decide that six bedrooms and three baths are really all he ever needed and dispense with an even larger house, than the smaller earner is to give up the twelve thousand dollar home because his income taxes are up several hundred dollars. This smaller amount can be absorbed by driving the car another year, passing up a fishing trip, or some other minor self denial.

In discussing houses built before the depression, I am assuming that the amount of $12,000 and over is present day sale value of land and building and not an abnormally depreciated cost. On this criterion, I am talking about the orphan of the real estate market, the step-child that nobody wants. This is a problem that is worse today and causes us greater concern now than it did in 1932 and 1933.

There is a twilight zone or a sort of purgatory for the houses built during the 1920's, but for high-priced houses built prior to 1920 it is just plain hell. Three major factors hurt the sale value of houses twenty-five years or older, yet

SEE PAGE 7 FOR PRELIMINARY CLINIC ANNOUNCEMENT

large enough to command a figure of $12,000 or more: (a) Obsolete exterior and interior with high replacement and maintenance cost; (b) Local real estate taxes; and (c) Lack of social desirability due to age of neighborhood plus the constant shifting of population, racial and otherwise, always taking place in a large city.

How Neighborhoods Change

All mortgage men are familiar with the evolution of a first-class residential area. First the original families begin to move on and are replaced by others with lower incomes but anxious to derive the social benefit of a good address. The next group is made up of fairly good people who find it necessary to rent out two or three rooms to help carry the load. Following this stage is the unashamed conversion to full rooming houses or cutting the house up into light housekeeping units. Ironclad restrictions designed to protect neighborhood desirability are frequently a weapon restricting the market and sale value of a house seeking a new owner.

It seems to me that the large number of small homes being built will have little if any effect upon the value of either new or older homes selling at $12,000 or more. It is now certain that as a result of the defense program, the government action on priorities will prohibit the construction of homes with a market value of over $6,000, and to that extent limit the supply, and perhaps cause some stiffening in price on houses already built. The buyer whose income would permit the higher priced home will see no reason for accepting the small room sizes necessary in low cost homes.

Hence my conclusion that: (1) Modern homes $12,000 to $25,000—OK if market is not overbuilt. (2) Older homes will have the extra burden of heavy federal tax on personal income to fight in addition to excessive local real estate tax and heavier maintenance cost, and it seems to indicate still greater competition among owners to dispose of this class of real property.

One view comes to me from the sales manager of our organization who said:

"It is my firm opinion that values cannot be maintained in the larger homes for various reasons. The principal objection that we find in our real estate department, which has liquidated all types of properties including large homes, is the heavy taxes of today and the uncertainty of future taxes. Customers who for years have been figuring on a definite size home when their earnings would allow, now that their earnings have increased to that amount, are definitely concerned with the tax situation and what it will be tomorrow. They are now ready to buy this long-delayed home but instead are thinking of a much smaller house.

"I believe once they get this small home they will find that it gives them as much comfort and liveability as the larger home they have long desired. They seem concerned about the large homes offered for sale in recent years at a fraction of their original cost. They feel that the same thing may exist again and their equity, or a certain amount of the value, will disappear.

"We also note that many people not only buy a smaller more compact home, but are inclined to go out in the suburban districts for various reasons. One is that security in value is being maintained. They feel, too, that they are getting away from the migration that is continuously going on in the larger cities. The new high speed roads and improved rural school districts have made it much handier and convenient to live in the rural district than in the past."

Expensive Houses Lower Priced

Now coming to another viewpoint, a salesman in our real estate department gives the following—and he has pointed out some mistakes I feel I have made. He first deals with that part of the question "Can values on homes in excess of $12,000 be preserved in view of increasing taxes of all types." He said:

"I have come to the conclusion that there are two reasons for a rapid fall in the value of homes of $12,000 and up. The two reasons go hand in hand: (1) High taxes; and (2) Homes becoming obsolete due to new and modern improvements being built into homes of today and with the further public demand for a home to be more compact and every inch usable.

"Homes built 10 years ago compare only slightly with the homes of today. Now let us go back ten years farther, to around 1920. Compare a 1920 home with a 1930 home. There was not as much change in the construction of a home built through the 20's as there has been through the 30's and early 40's. The public has been taught that the home of today is much easier to maintain, is more comfortable, and that it is less costly to live in a house with a smaller area and cubic content.

Why the Market Is Poor

"Values, whether they be homes or commodities, are maintained by the law of supply and demand. During the past few years there were available for sale a large number of homes, but a low demand for them. That condition has changed in recent months through a heavy demand for homes up to $12,000 and prices on these homes have made a reasonably good return from the low of depression years. But used properties in excess of $12,000 are not selling any too well and the public is still asking for lower prices.

"There are several reasons for the poor market and lowering value for homes in excess of $12,000. Let us build a hypothetical case. You and I are customers. We can afford a house in the $20,000 bracket. First, we have the money; second, our income is such to warrant our buying such a piece of property. The real estate man submits to us a long list of homes available in this price range, giving us facts and proof that these homes formerly cost $50,000 to $75,000. This thought runs through our minds: we are going to get a lot for our money, but our second thought is why are there so many of these homes available at such marked reductions in price?

"The broker then takes us on a tour of inspection and as we go from house to house we find all of them are badly in need of remodeling inside and out. After looking over many of them we finally select one that has the least number of faults. We then have a contractor tell us what it will cost to bring this home up to date. We find that due to high building and labor costs it will cost a minimum of $5,000 and possibly nearer $10,000 and we still have an old house. We then find that the taxes are about $60 per month. Let us now sum up this

case and see what we have. We would own a home in the older section of the city and instead of costing the expected $20,000 it might cost $30,000 with taxes of $60 per month. Our first resistance to this property is the fixed taxation.

Can Values Be Maintained?

"We then inspect the new homes that have been built recently and find that we can get a new home, modern in every detail, low future maintenance cost, and the taxes are about fifty per cent less.

"This story, I believe, illustrates why there has been so little demand for houses of $12,000 and up. I do not believe values can be maintained on that group of higher-priced older houses. The only thing that interests the potential buyer is the price and it may cost the difference in future expense, taxes, and maintenance. Recently a wealthy family was interested in purchasing a town house in the $35,000 bracket. It had formerly cost $200,000 and present real estate taxes were $125 per month. No one can say the property was not an excellent value at $35,000. The buyers were in a position to buy and pay for this home but after further consideration of real estate taxes, ($1,500 per year) ordinary maintenance and heating, they passed it up. They felt that even though their present income was high, it would be so reduced by taxation that they could not afford this home.

"It seems to be the consensus of opinion that this present business trend is good for 3 to 5 years. Few are willing to stretch the imagination beyond this time. There is a market for these obsolete houses. Why not take advantage of it? But it will have to be at lower prices than the present day market offers. But not to the buyer who is buying and possibly willing to pay our price of $20,000 with a small down payment. If conditions would change radically within 3 years we would only hurt him and ourselves. We would just get the property back with nearly as much against it in mortgage as when he purchased it. Would it not be better to lower our prices and sell only to the buyer with cash or at least half cash to be sure of having these homes in the hands of people who would be able to keep them to their advantage and to ours as well? Let us sell at prices and with a down payment sufficient to have the word sold *mean sold.*

"Is not the increasing number of small homes having an adverse effect on the value of higher priced homes?"

"There has been a good demand for houses in excess of $12,000 but they must be up to date and modern in every respect. The servant problem, too, for such homes, is a difficult one. As a result there is a definite demand for higher priced homes but they must be easy to maintain and have a low fixed annual upkeep cost.

"I do not believe that values on older properties with present high taxes can be preserved. The average American is determined not to load himself with a high fixed cost for the upkeep of the home, because he feels this bubble will break. The majority of the American people believe that we are in for some form of inflation. They like it while they are on the make but are firm in the belief that sooner or later another recession will occur. Even with that in mind they like to buy and will buy but are watching carefully future fixed expenses that would remain with them the rest of their lives.

The average individual owner or corporation has gone along the past five or ten years trying to keep the prices up on these older properties, which in the majority of cases yield no income or just enough to be tax payers."

Taxes: the Unknown Factor

Our New Loan Department declares: "I think we have a problem to face in preserving values on the larger homes. However, I do not believe the problem starts at $12,000 values but rather at the $15,000 level.

"Depreciation is drastic on the larger home as compared to the popular priced class. We saw this brought home clearly in the last depression. A limited market in good times dwindles to no market whatsoever in times of stress. And now the unanswerable tax question has been interposed which will further affect the large home market.

"No, I do not believe values on this type of home can be preserved, and loans made to finance their purchase or construction today should be in conservative percentages and on comparatively short terms.

"The increasing number of small homes would not affect the value of the very high priced homes but would, I believe, have an effect on the twelve to fifteen thousand dollar group.

Another View

"Insulation, modern heating, plumbing, and modern interior design have been so effectively used in the low priced home that the next price class cannot offer sufficient advantage to maintain their volume."

I asked our assistant sales manager about the problem. He said: "There are no questions of more vital importance to mortgage lenders than the ones you raise. The policies formulated which are to be followed in the next few years, will have a definite effect on the status of your loan portfolio when you eventually arrive at that date in the business future when international issues, now being contested by force, have been decided and society is confronted with first, an existence under conditions similar to those we have experienced in the last eight years, or second, under conditions comparable to the ones in effect during the depression, or third, possibly a new code of procedure revolutionary insofar as experience is concerned, or fourth, a composite of the phases just mentioned.

"While construction of exceptionally high-priced homes has been practically at a standstill since the last so-called post war boom, there has been considerable activity in that cost range embracing the twelve to twenty-five thousand dollar field. Defense priorities now affect this group. By reason of the results sure to follow the application of priorities, coupled with the increase, at least temporary, in income to be enjoyed by those properly classified in this price range, there has developed a limited, though strong demand for dwellings in this classification. This situation affords you an opportunity to dispose of those properties acquired during the conduct of your business and presents an opportunity to hand-pick your borrowers to the end that

(Continued page 7, column 2)

"You Can Either Change My Mortgage or I Will—"

Many borrowers these days seem to think every advantage of the contract must be on their side

By **CHARLES H. WANSKER**

CONDITIONS are changing so rapidly during these days of economic upheaval that the position of the mortgage loan correspondent might well be likened to the parable of the fire and the frying pan.

We have read some excellent articles in *The Mortgage Banker* by officials of life companies on their concept of what a mortgage loan correspondent should be, what is expected of him, what he should or should not do, and the degree and type of relationship which the lending institution and the mortgage loan correspondent should strive to secure.

We have also read some good articles on mortgages, real estate in general, economic problems, building costs and prices or costs vs. value.

But we correspondents have another troublesome factor to contend with under prevailing conditions, namely, the property owner, the borrower, or client. What to do! We all can state (and I feel sure beyond the semblance of a doubt) that the mortgage loan correspondent has his company's interest completely at heart; that it is to his advantage to guard with everlasting tenacity all investments, all properties, all appraisals, and all recommendations to the end that his institution will suffer minimum losses.

But today we have a situation wherein the borrower who, two, three, or five years ago, was a close and delightful friend, is today dissatisfied, prejudiced and aggrieved. Why? Because two or three years ago he accepted a mortgage at 4½ per cent or 4¾ per cent which now, presumably, could be refinanced at 4 per cent, and probably for fifteen to twenty years with 2 per cent or less amortization requirements.

The present mortgage written for ten or fifteen years, perhaps with five or ten years to run, from the standpoint of the borrower is a throttling hindrance to his ambitions for an even better mortgage. Presumably, contracts mean very little to some and are merely instruments which should be terminated at will if market conditions tend one way; if *upward*, of course, the existing contracts should be *maintained*.

HERE are some observations which must have a familiar ring for almost every mortgage banker. Mr. Wansker hits the nail on the head when he says many borrowers feel themselves entitled to every advantage but become irate if they think the lender gets even the smallest break. Mr. Wansker's theory is that rates should not be lowered on loans which still have five years to run. The author heads his own firm in Boston and is a loan correspondent for one of the largest life companies.

Human nature hasn't changed and probably won't. Apparently it is the desire of borrowers to obtain mortgages to the maximum "stretch" permissible and with minimum repayment requirements —the idea apparently being to liquidate such obligations eventually with a cheaper dollar, providing, of course, these cheaper dollars become available to the borrower; that is to say, if his financial position then is better than it was during 1932 to 1935.

The mortgage loan correspondent today is thus confronted with letters and calls demanding revision of mortgage terms under the dire threat of changing to another institution. Can anyone imagine the upheaval and confusion which would result if every mortgagor, regardless of contract obligations, conditions or changes in property, arbitrarily demanded and received an adjustment in the mortgage terms to compete with present conditions?

Therefore, what is the solution, or I might say, what is the most equitable solution?

Shall we deny each and every client any consideration whatever and hold fast to mortgage agreements as contracted, regardless of future consequences, or shall we give a thorough study to each case presented and act on each individual problem?

I have taken a middle-of-the-road attitude. If the original terms were severe, and extreme amortization requirements are called for, and if, in the interim, the property has steadily improved, either in the form of physical modernization or economic enhancement because of increased rentals and substantial tenants, I say some amortization relief should be applicable, providing the owner agrees to an extension of the maturity date.

I am convinced that any adjustment should not be unilateral. It is my opinion (not yet proved correct) that rates should not be lowered on mortgages which still have five years before maturity date. In these times, conditions over a period of five years could be so completely altered as to make present predictions almost useless and probably favorable only to the borrower.

I favor cooperating with an owner to the extent that, if a mortgage has been materially reduced, considerable expenditures made on physical improvements and the property enhanced economically, an adjustment be made in the form of a further advance of money and a proportionate adjustment in amortization, if in

(*Continued page 8, column 3*)

Re: 1942 Real Estate Prices, Taxes, Office Building Occupancy, Etc.

Including what MBA members think about them as well as the calibre of the average city administration

REPORTING AN MBA SURVEY

EVERY year about this time *The Mortgage Banker*, figuratively speaking, takes down from the shelf its crystal ball and peers into the future to try to see what is ahead for certain activities which contribute to the prosperity of mortgage banking.

Usually we have had something to say about what we think is ahead for rents, interest rates and other prime factors. But not this year. Too many influences entirely outside the field of private enterprise as we have known it in the past are at work and it becomes a difficult thing, for example, to forecast what may be expected in the next twelve months in the rent index.

Of course this so-called crystal gazing has been anything but that. We haven't done any guessing on our own. The predictions we have printed have been based on surveys among our members with the results carefully tabulated. Late in 1941 we made the same study but limited our queries to only one member in each of the more than 125 cities where MBA is represented. In this way we felt we could secure a sort of sampling poll which—as has been proved so many times in recent years—is often far more accurate than one which stresses obtaining as many opinions as possible.

This year our data are mostly concerned with broad general subjects over which the effects of war will—at least for the immediate future—have a lesser influence.

First on our list is residential construction—and since we solicited our opinions conditions have changed considerably so you must take the principal figure in these data with at least a grain of salt.

According to what we found, private residential building in the U. S. in 1942 will show a decline of at least 40 per cent. Our poll was completed just before the outbreak of the war, and asked members to estimate the decline in their cities "provided no further governmental restrictions are placed on private residential construction."

Subject to Revision

Of 61 principal cities reporting, replies from 55 indicate declines ranging from 15 per cent as high as 90 per cent. Members in only six cities anticipate a volume equal to that of 1941 or higher, and all of these were in areas where heavy victory activities are concentrated.

The decline expected in the 55 cities averaged 40 per cent. According to President Champ: "This estimated decline is now probably subject to revision as a result of the attack on the United States which has been unparalleled in all history for treachery and dishonor. The war naturally means that every ounce of building materials needed for armament production will now go toward winning the war. Thus the decline may be higher than could have been foreseen a few weeks ago."

Note that the MBA estimate predicted a 40 per cent decline and further that some—if not most—of the opinions that went into making up that figure were arrived at before Pearl Harbor. It is a curious coincidence that the estimate of a well known statistical organization was exactly the same although their statistics were based upon far more complete data than our own.

Now what has happened since then?

This statistical organization now says that residential building in 1942 will, in dollar volume, equal or exceed the 1941 total instead of running 22 per cent behind as had been previously forecast. It further believes that while the amount of money spent for residential housing in 1942 will not exceed that spent in 1941, it will not show a 40 per cent drop as had been previously estimated.

So much for that; now what about real estate prices?

According to what the MBA members we heard from had to say, the dope is this:

Selling prices for single-family houses and apartment properties are going to be higher in 1942 and the increase for the former may likely be double that of the latter.

Members in 55 of 57 principal cities reporting expect increased prices for single-family houses and the increase in 46 of these cities averages around 22 per cent.

Members in 44 of 53 principal cities report that price increases for apartment properties is to be expected in 1942 and the average increase in these 44 cities will be around 11 per cent—half the anticipated gain for single-family houses.

The trend forecast by the survey would indicate that real estate will continue, in the immediate future, to be a good medium for investment funds as has been the case in recent years.

Now let us jump to another mortgage factor, one that is important to many mortgage men. It's office building occupancy (and our data in recent years on this factor has been consistently right).

If our data is right now office buildings in leading American cities are better rented now than in several years, and show average occupancy in 53 leading cities now of around 87.9 per cent. This compares with occupancy of 85.14 per cent shown by another national survey

as of October 1st and 83.92 per cent on May 1st, 1941, reported by the same group. An MBA survey made at the end of 1940 reported an average occupancy of 87 per cent for 69 cities.

"The data reflects increased business activity but also indicates that there is still a good deal of vacant office space over the country," said President Champ. "It seems certain that during the war the available office building space will not be increased much except possibly in a few cities like Washington. Hence occupancy ought to remain about where it is now or increase—unless, of course, the war, by necessity, closes some smaller businesses."

Now taxes—no, not the income kind, because there is nothing we can tell you about them and nothing you would want to hear because right about this time you are up to your ears in them anyway. We're thinking now about real estate taxes and, according to what MBA members tell us, this is one tax which it seems likely will show no increase in 1942, but in many American cities it appears already too high.

Mortgage bankers in 38 principal cities believe there will be no real estate tax rise this year although bankers in 24 other leading cities expect some increase.

In 14 of the cities polled mortgage bankers do not consider present real estate taxes too high but in 37 other leading cities mortgage bankers say they are too high. The estimate of how much too high these taxes are averaged 23½ per cent for these 37 cities.

"I believe this sampling poll indicates a trend which should prove encouraging to property owners," said President Champ.

"While almost all other taxes are naturally rising to pay for the war, real estate taxes do not appear to be increasing generally. This is encouraging because it seems fairly well agreed that the real estate tax burden in recent years has been proportionately heavier than almost any other."

Our results seem to substantiate other current data on the subject. It was recently shown that the average real estate tax rate in 263 cities in 1941 increased only 2c per $1,000 over 1940 and that the average assessed value in these cities increased only one-tenth of one per cent.

Now getting away from factors and things that you can put your finger on and stepping over into the field of the abstract—things we can't put our fingers on or do anything about—here's something new in this six-year series of MBA questionnaires. It's a question about what members think of the people who run their city.

Bouquets for the Politicians

It has long seemed to us that local city officials come in for a good part of the general abuse of "politicians." In ability many have rated the local administrator at the bottom of the ladder. But our members do not seem to agree. Quoting from the statement we have given to the press on the subject:

"That much discussed—and often cussed—part of American politial life, the local city administration, seems to be a more competent body than it is usually given credit for. At least that is the logical conclusion to be drawn from a confidential survey of 56 leading American cities by the Mortgage Bankers Association of America.

"Mortgage bankers in these 56 cities were asked whether, in their opinion, their 'city administration is sincerely thinking about and trying to solve municipal problems such as providing better parking facilities, better transportation and, further, whether members of the administration have any vision and imagination regarding modern city planning problems'."

"The Boys Are Trying"

Members in 46 of these cities declared that as far as their own city administrations are concerned, the answer was decidedly yes. Mortgage bankers in the other 13 said no, but several qualified their opinions. Typical was the view that "the boys in the city hall are trying."

And now something distinctly on the "light" side—call it unimportant, frivolous, anything you like. The question we asked and the answers we received are in this statement:

"One of the most important contributions toward relieving traffic congestion in the downtown areas of American cities would be for women to use street cars and buses more and their own automobiles less when coming to these sections to shop. At least that is the opinion of mortgage bankers in 41 of the 61 principal cities polled by the Mortgage Bankers Association of America on the question. Mortgage bankers in the 20 other cities disagreed. Some of these felt that the number of automobiles driven by women into the downtown sections isn't enough to materially relieve the congestion. A few said it might help but added that any effort to change the shopping habits of women in this regard could not be handled by city planners and traffic experts.

"Although mortgage bankers in more than two-thirds of the 61 cities covered by the study felt a campaign to encourage freer use of municipal transportation by women shoppers would cut traffic congestion, mortgage men in six of the largest cities in the country disagreed. It had been expected that all larger cities would show an opinion in favor of such a movement."

But we buried the statement. Tire rationing, and a great many other events of recent weeks, made our conclusions—if they were important in the first place—decidedly unimportant now. The question was asked in the first place, incidentally, because a well-known municipal engineer recently declared that if women would drive into the central shopping areas less urban traffic congestion would be materially curtailed.

In the last issue we published The Mortgage Business in Philadelphia and in early issues we have scheduled similar articles on Salt Lake City, Dallas and Columbus, Ohio.

CHARLES L. MEDARIS

With sorrow we announce the death on January 15th of Charles L. Medaris of Toledo as a result of an automobile accident in that city. Mr. Medaris was in charge of mortgage loans for the First Toledo Corporation, which has been a member of MBA for several years. To his family and associates go our deepest sympathy.

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WHAT IS MBA'S CLINIC PROGRAM THIS YEAR?

If you are one of those members who has asked that question here is the partial answer. The complete answer will be found in the next issue of *The Mortgage Banker*.

MBA is planning the biggest and most comprehensive schedule of Mortgage Clinics yet undertaken. Instead of four one-day Clinics we are organizing eleven two-day Clinics, well-distributed geographically. Our present plans call for almost an entirely new method of presentation and conducting.

This year we are *bringing MBA to the members*. Each of these Clinics, from the standpoint of what you will hear and the benefits you will receive, will be more like annual Conventions than regional conferences, but they will have the advantages of the latter which is what we are seeking primarily.

The principal innovation is the organization of a group of specialists in all phases of mortgage lending activities.

For complete details watch for the next issue of *The Mortgage Banker*—out early.

FUTURE VALUES FOR THE MORE EXPENSIVE HOUSES

(*Continued from page* 3)

you may secure for your files the proper amount of ultra-conservative mortgages on this type of property, which is surely desirable. It is my opinion that although there appear, at this time, great possibilities of severe taxation on individuals and properties in this classification, I believe that this country will always have an appreciable number of financially capable citizens whose requirements will dictate accommodations such as can only be found in this price home.

"Defense housing requirements, plus the effect of efforts of those persons attempting to hedge against any eventuality by purchasing homes in the small-home class, are causing a somewhat slower increase in demand for houses in the ten to twenty-five thousand dollar class.

"The tremendous activity in small home construction, though affecting to a certain point the immediate activity in the better class homes field, should produce a satisfactory net result for in the final analysis the American home is still this country's number one institution.

"I think that regardless of what lies ahead of us in the economic world the citizens of this country will continue to enjoy freedom of action and competition, with resultant desires for nicer homes possessing more functional utility, and out of which, if you lend wisely, evolves the mortgage loan on the better class home."

In reviewing the opinions of my associates, I find our assistant sales manager in disagreement with the others and believes there is a demand for this higher-priced house. However, a study of his remarks causes me to believe that he is thinking more in the class of *modern* or houses built since the depression than he is of the *obsolete* or houses built prior to the depression. At least, if he is willing to include the *obsolete* in his thinking, he undoubtedly is thinking of a buyer being satisfied with a *modernized obsolete* whether that modernization is done by the seller or by a buyer with ability to visualize what he can do to the older unmodern house.

We have experimented with some of our older high-priced houses by installing modern kitchens and modern bathrooms and have added additional baths where possible. Some interior and exterior modernization is possible and should be done if too much expense is not involved. However, we cannot escape the fact that the architect has advanced in his thinking. He may still use the exterior design that has proven acceptable or he may develop a completely modern expression, but he is really serious when he gets to work on the interior. He designs more comfort and conveniences in less space than before. He has improved on tradition and makes ownership of these comforts and conveniences less costly to build and operate than the old conventionals were.

I think the old style house with lots of *waste space* is definitely a problem. Some things such as kitchens, bathrooms, fixtures, etc., can be modernized but you cannot do much to wide center halls and other waste spaces and you will have great trouble in getting the tax valuator to ignore their existence when appraising for tax purposes. High realty tax values, with their attendant high tax payment requirements, has very seriously curtailed our activity in sales of the older high priced house. The modern $12,000 to $25,000 house is subject to a little higher depreciation charge than the house under $12,000. Where you get much above $25,000, you have not created marketable or lendable value but have only satisfied the desire of an individual.

The attention of a buyer able to purchase a house in the $12,000 to $25,000 class should be called to the fact that you cannot deduct a rent receipt from your income tax return, whereas interest payments and normal taxes are proper deductions.

A man with an income of $15,000 purchasing a home carrying taxes of $450 per year and a mortgage of $15,000 at 4½ per cent interest has a deduction of $1,125 and for a man and wife without dependents, that may this year make a difference in his income tax payment of $370. This amount deducted from his interest charges of $675 would give an interest rate of about 2 per cent.

Many single premium life insurance policies have been sold on the strength of such a low interest rate. Let us follow their leadership and use the low interest rate and tax deductions in the sale of our higher priced properties.

According to Some Mortgage Men—

IN the December 15th issue (on the presses, incidentally, before Pearl Harbor) we commented on a member's suggestion that the Soldiers and Sailors Relief Act was confusing to the public and that probably a change might be made whereby FHA, upon being shown the proper supporting evidence, would guarantee the investor interest at the debenture rate without legal proceedings actually being started. We said that cases under it hadn't become common yet but might. So far they haven't become common but interest in the Act by MBA members has been immeasurably increased since December 7th.

The other day one MBA member from the West Coast, an official of a life company, reviewed the problem presented by this legislation. He said:

"Following the effective date of the Act, FHA on October 21, 1940 made an amendment to the regulations for mutual mortgage insurance under Section 203 of the National Housing Act, which provided that any person in military service, as defined in the Relief Act, should have the period of this service excluded in computing the one year period in which the mortgagee shall commence foreclosure or otherwise acquiring the property; and, further, that no postponement or delay in the foreclosure proceedings during the period of military service shall be construed as failure on the part of the mortgagee to exercise reasonable diligence in the foreclosure.

"I assume that a majority of institutional lenders have in their portfolios non-insured loans as well as FHA insured loans and that they will seek to extend to those in military service all the relief that can possibly be afforded. This would lead to the minimum amount of court proceedings and the resulting adverse publicity.

"Assuming that this objective is that of mortgage lenders generally, we are faced with an awkward situation as far as FHA insured loans are concerned. This condition arises because the FHA lender who might withhold foreclosure during the period of military service but who later has to foreclose would lose from his debentures the interest that he might otherwise derive had he foreclosed promptly following the default. It is understood that the owner of an FHA insured loan would receive the interest from the date of default to the date of commencement of foreclosure in his certificate of participation, but the value of these certificates is looked upon as being questionable.

"If my understanding of the operation of FHA's amendment to the regulations concerning persons in military service is correct, then FHA mortgagees may be unduly influenced to commence foreclosures upon such persons in order to assure recovery of as much interest as possible in case the defaulter failed to reinstate following the term of his service.

"It has been suggested that the FHA amendment be changed so that the mortgage insurance fund shall be obligated to bear some portion of the burden that would arise through the loss of interest caused by extending leniency to a borrower in military service. If we assume that FHA lenders usually follow the practice of beginning foreclosure after the third or even the fourth default and in that way cause to be included in the debentures the interest that they would have otherwise failed to collect, then it would seem reasonable that the mortgage insurance fund should carry the burden of interest beyond that which would normally be sustained by the lender."

Speculating on the possibilities raised by the suggestion, another MBA member, one of the largest FHA lenders in the country, said:

"I don't believe it would be wise to revise the present provisions of the Soldiers and Sailors Relief Act. At the present time all mortgage bankers may, at a minimum cost, file a bill of forelosure and in this way interest will start immediately. They are therefore assured of interest and, at the same time, a return of principal at some date in the future. If a revision is sought, FHA might claim, and rightly so, that mortgage bankers are taking away the incentive to collect payments promptly and may not do as good a job of collecting as we would otherwise do."

Another member, studying the problem, said:

"I don't think a revision would be advisable. The FHA Act definitely sets out that we must start foreclosure proceedings before interest starts to accrue on the debentures.

"I think mortgage bankers will have to do some effective public relations work by explaining that we are forced to start foreclosure in order to receive interest from FHA. If the job is done correctly we will not be criticized. After all, it is just another bit of work in connection with our servicing."

You can be sure the Soldiers and Sailors Relief Act will come up for considerable discussion at the Clinics. What are some of the other current problems? One, of course, is the problem of war risk insurance and damage caused by bombings and other war hazards. For the time being we refer you to our Article-of-the-Month for January on that subject.

Another is rent control and we suspect you are going to be hearing a great deal about that in the weeks to come. Another is Title VI loans and the many problems revolving around them.

Another is the question of how are solicitors going to get around as they have been doing if restrictions on the use of cars become acute. These are just a few problems culled from the daily mail. You're going to hear them all covered at the Clinics this year.

C. H. WANSKER'S ARTICLE

(Continued from page 4)

excess of 3 per cent, providing the maturity date be extended.

Mortgage contracts having five years or more to run should not be cancelled arbitrarily and entirely new terms agreed because of conditions that exist today because *what of tomorrow?*

Truly, while the interests of a mortgage loan correspondent unquestionably are with the institution he wholeheartedly represents, his sympathies, *outwardly at least,* are with the client. The decisions of today require a modern Moses so that a healthy and workable relationship may exist between correspondent and client and with the security, goodwill, and interests of the lending institution always the guiding influence in all considerations.